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San Francisco Chronicle

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TOP OF THE NEWS

World/Nation

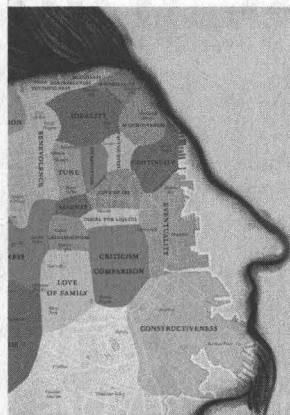
► **Afghan war:** Coalition members adopt a transition plan. A5

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► **Spurring development:** Salesforce is helping Mission Bay plan reach fruition. D1

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► **Holiday visit:** A herd of reindeer arrive at the S.F. Zoo. C1

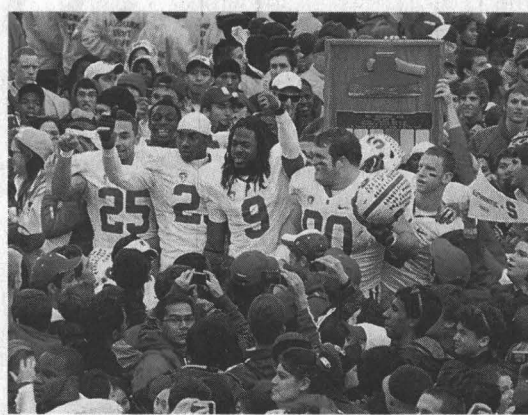


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Cultural history is mapped out in 'Infinite City,' an S.F. atlas. F1

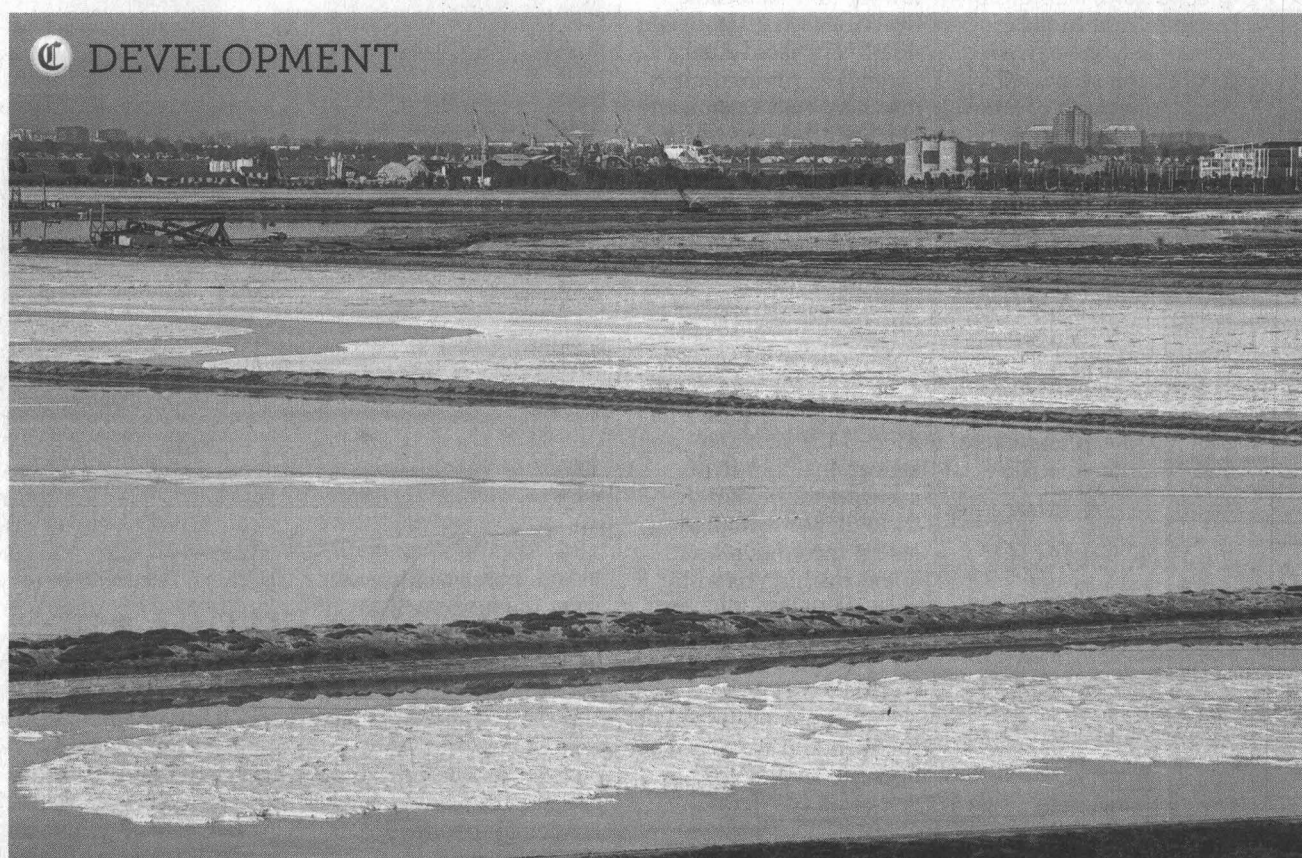
Insight

Is the U.S. prepared for a terrorist swarm attack? E6



Sporting Green

Stanford turns the Big Game into a big blowout, beating Cal 48-14 in Berkeley. B1



DEVELOPMENT

The 1,400 acres of former salt ponds owned by Cargill, south of the Port of Redwood City, would be replaced by housing under a developer's proposal, which also seeks to transfer water supplies from the Central Valley.

Water transfer a maze of laws

Intricate pacts among utilities would shift supply from Kern County to Redwood City

By Kelly Zito

CHRONICLE STAFF WRITER

No water pipeline runs between Bakersfield and Redwood City. But the Central Valley town — about 300 miles away — is the source of drinking water for 12,000 homes proposed on a swath of former salt ponds just south of the Port of Redwood City.

It's called "paper water," meaning the water wouldn't actually flow from the heart of California

farm country to the edge of Silicon Valley. Rather, the transfer would occur through an intricate series of water agreements involving at least three water agencies, including the utility serving San Francisco and the Peninsula.

There is growing pressure for a more active, flexible water market in a state of 37 million people and almost \$40 billion in agricultural output a year. A vocal group of Bay Area community leaders, legislators and environmentalists say,

however, that the multimillion-dollar deal for the Redwood City subdivision's water supply is too convoluted, sets a dangerous precedent and may even violate state laws designed to prevent smaller communities' water from flowing to the highest bidders in faraway places.

"We're talking about a permanent transfer of hundreds of millions of gallons of water each year from agriculture to urban (areas) that are hundreds of miles apart," said state Assemblyman Jared Huffman, D-San Rafael. "That's a red flag that tells you this project needs to be reconsidered."

Kern County continues on A23

STATE BONDS

Governor presides over huge rise in debt

Borrowing soars despite Schwarzenegger's vows

By Marisa Lagos

CHRONICLE STAFF WRITER

In 2003, Gov. Arnold Schwarzenegger rode to victory in an unprecedented recall election in part by promising to tear up California's credit cards and live within the state's means.

Over his seven years in office, as California continued to face multibillion-dollar deficits, it has remained a familiar rallying cry. But during Schwarzenegger's tenure, the state has repeatedly resorted to borrowing. With the Republican governor's support, voters and lawmakers have approved more than \$90 billion in bonds, plus interest, to pay for infrastructure projects and to help balance the state's budget. Schwarzenegger has also proposed and signed spending plans that partially plugged general fund deficits by borrowing billions of dollars from other state funds.

The Schwarzenegger administration defends such borrowing as necessary and responsible, and his economic adviser, David Crane, points out that the governor has made major reforms to the state's pension system that are expected to save taxpayers billions of dollars. Critics, however, say the practice of borrowing has let California postpone tough choices — and will leave the deficit-ridden state with less money for schools, parks and public safety for years to come.

As he prepares to leave office, the state faces a \$25.4 billion deficit over the next 20 months, and the nonpartisan Legislative Analyst's Office

Bonds continues on A18

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Weather
Showers, possible thunderstorms.
Highs: 49-56.
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SUNDAY PROFILE Jay Keasling

Biofuel guru: Cells do his bidding

By Tom Abate

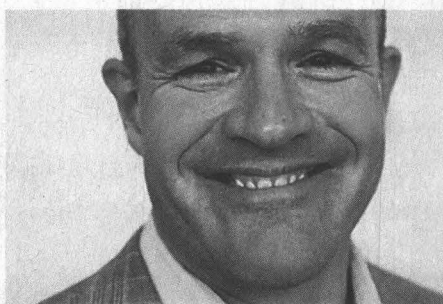
CHRONICLE STAFF WRITER

UC Berkeley Professor Jay Keasling leaned forward in his armchair at the Joint BioEnergy Institute, where he leads 200 researchers on a quest to coax yeast cells into producing fuels that provide the same energy, with less pollution, as petroleum products.

"I've just had the best week of my life," he said of his induction into the National Academy of Engineering and the public offering of Amyris Biotechnologies, the bioenergy startup he co-founded, which valued his 1 million shares at about \$17 million.

In a regional economy driven by the transfer of knowledge from the laboratory to industry, Keasling, 46, represents the quintessential modern scientist — brilliant in the lab, gifted at fundraising and skilled at managing huge, cross-disciplinary research teams.

The institute "is really a model for



Mike Kepka / The Chronicle

Jay Keasling turns yeast cells in a lab into factories that produce energy.

what a modern national laboratory should look like," said Paul Alivisatos, director of the Lawrence Berkeley National Laboratory and one of the supervisors of the Department of Energy's \$134 million, five-year bet on Keasling's effort to bioengineer cells to produce fuels and other chemicals.

But Keasling's critics worry that such

Keasling continues on A22

S.F. POLITICS

Budget bad news for mayor-to-be

By Heather Knight

CHRONICLE STAFF WRITER

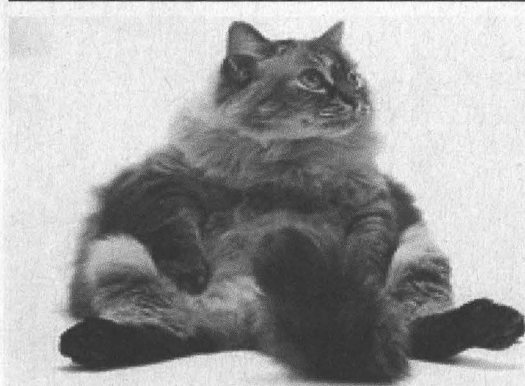
As the San Francisco Board of Supervisors wrangles over who will be the city's interim mayor next year, political observers and some supervisors are wondering whether the post is really a prize — or more like a white elephant gift.

The replacement for Mayor Gavin Newsom, who will be sworn in as lieutenant governor in January, will inherit a budget deficit of at least \$400 million and far fewer easy fixes than in previous years.

Federal stimulus money and major labor givebacks largely filled the hole for the current fiscal year but aren't expected to be options again. That means whoever sits in Room 200 until voters have their say in November 2011

Deficit continues on A19

► **Bay Area:** Willie Brown says latest contender for interim mayor is Assemblyman Tom Ammiano. C1



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FROM THE COVER

Water transfer a maze of utilities, laws



John Sebastian Russo / Special to The Chronicle

A housing project is proposed at the site of the former Cargill salt ponds, but because Redwood City's water is spoken for, the developer wants to transfer supplies from the Central Valley.

Kern County from page A1

Agribusiness conglomerate Cargill and DMB Associates of Scottsdale, Ariz., are the co-sponsors of the Saltworks housing project, and say it's the epitome of sustainable development. The housing complex envisioned is dense, located in an urbanized area near existing transit options.

Common elsewhere

Environmental concerns raised by opponents are overblown, backers say, adding that the water transaction — while out of the ordinary in the Bay Area — happens elsewhere around California and complies with all local, state and federal laws.

"There's not a long track record of (water transfers) on the Peninsula, but it's a much more common practice in Southern California," said DMB Vice President David Smith.

On Nov. 30, the city and developer will host an open house on the water supply component of the plan, originally submitted in early 2009. The final environmental review on the project probably is more than a year away. Still, the project has generated so much interest and controversy that Redwood City's planning department added extra meetings for more public discussion.

Redwood City water taken

Water supply isn't the only contentious issue surrounding the 1,400-acre neighborhood. Lead agency DMB also has taken heat for proposing the equivalent of a small city on what many say is a restorable tidal plain and along a shoreline bound to change radically in the face of climate change and rising seas.

It is the project's unusual water source, however, that has raised some of the most nagging questions.

California law requires developers of 500 homes or

"Kern County is one of the driest counties in California. ... It's wrong-headed and a vulnerable way to set things up."

David Lewis,
executive director, Save the Bay

more to demonstrate a "reliable water supply." Because Redwood City's water is spoken for, an early draft of the Saltworks involved pumping groundwater from below the town. Late last year, DMB shifted gears after it bought rights to 8,400 acre-feet of above-ground water per year — or about 2.7 billion gallons — for up to 70 years.

DMB bought the water from Nickel Family LLC, a Bakersfield farming collective rooted in a 19th century cattle empire.

Shuffle among utilities

George Nickel, the now-deceased leader of the Nickel firm, was one of the state's early pioneers in water marketing. Decades ago, Nickel secured water rights from the Kern River for his firm using an 1888 agreement. He then leveraged those rights to other developers in the Bakersfield area, helping to grow swaths of residential housing and resorts.

In 2000, the Nickel family sold its rights to 50,000 acre-feet of less reliable "high flow" water on the Kern River for \$6.4 million to the Kern County Water Agency, in exchange for a guaranteed 10,000 acre-feet of water from the State Water Project. The 8,400 acre-feet of water for the Saltworks project comes from that 10,000 acre-feet.

The sum for the Saltworks water wasn't disclosed but probably ran into tens of millions of dollars. One acre-foot is the volume of water

needed to flood one acre to a depth of 1 foot and is equivalent to about 326,000 gallons.

So, how does Kern County water end up in Redwood City? In two words: It doesn't. The process is more like a giant shuffle, in which three water utilities adjust the amount of water they take from various sources.

'No demand on the delta'

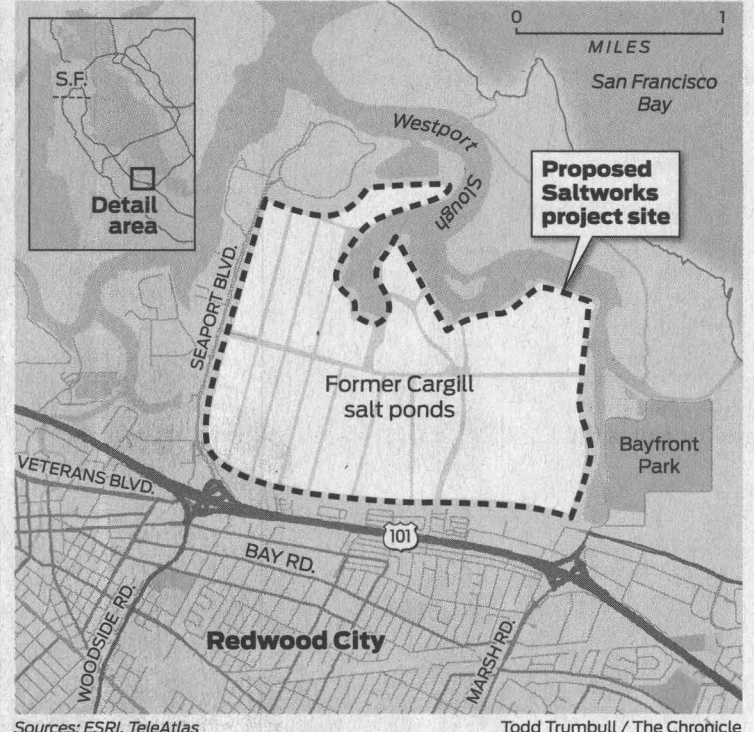
The Nickel Family water flows from the Sacramento-San Joaquin River Delta through the California State Water Project network. Under the pact with DMB, Nickel would not receive that 8,400-acre-feet allotment.

Instead, an intermediary water agency supplied by both the State Water Project and the San Francisco Public Utilities Commission would increase its share from the delta by the 8,400 acre-feet. The SFPUC, which serves San Francisco and most of the communities on the Peninsula, would then funnel the "extra" water in its system to Saltworks via Redwood City.

Estimated water demand for the development is less than the total 8,400 acre-feet, developers say. One acre-foot typically serves about one to two households per year, depending on the number of people living in each home.

DMB Associates emphasizes that the arrangement doesn't increase the water siphoned from the delta because that water already flowed to Nickel or earlier buyers of the Nickel water. "This is absolutely no demand on the delta, so it has no implications for the endangered fish there or the ecosystem," said DMB's Smith.

Watchdog groups say that's not the point. Much of the wrangling over California water policy in recent years has centered on regional self-reliance and discouraging long-distance water exports,



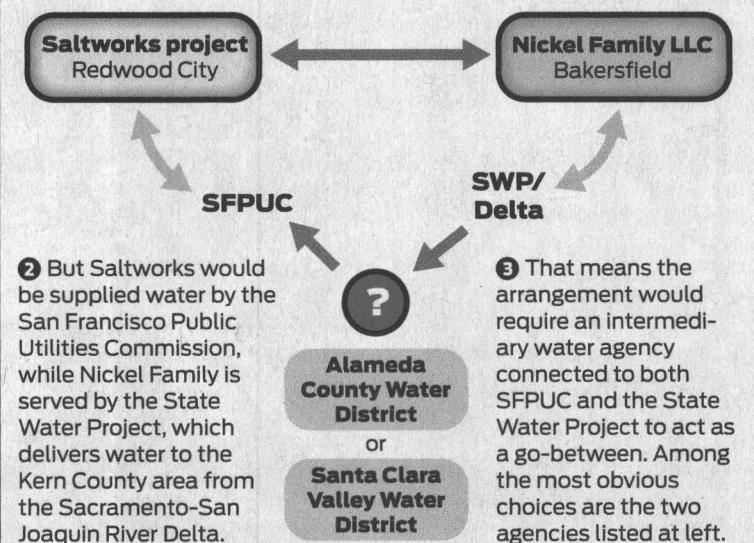
Sources: ESRI, TeleAtlas

Todd Trumbull / The Chronicle

Complicated deals over water

The developer of the proposed Saltworks project in Redwood City has purchased rights for about 8,400 acre-feet of water each year for up to 70 years from a Bakersfield land and water holding company. But the water won't be transferred directly; instead, water rights are transferred between agencies with existing connections.

① Housing developer DMB Associates buys 8,400 acre-feet of water from Nickel Family LLC, a Bakersfield company, to supply its proposed Saltworks project in Redwood City.



② But Saltworks would be supplied water by the San Francisco Public Utilities Commission, while Nickel Family is served by the State Water Project, which delivers water to the Kern County area from the Sacramento-San Joaquin River Delta.

③ That means the arrangement would require an intermediary water agency connected to both SFPUC and the State Water Project to act as a go-between. Among the most obvious choices are the two agencies listed at left.

④ This intermediary agency would take 8,400 acre-feet more water from the delta and 8,400 acre-feet less from the SFPUC. With that "extra" water in the SFPUC system, they could then supply that amount to the Redwood City development.

The Chronicle

which are more costly, require more infrastructure and are at higher risk for legal and physical challenges, said David Lewis, executive director of Save the Bay.

Violation of laws feared

Lewis and other experts also fear California's snowpack is on the decline, jeopardizing the backbone of the state's water supply and water abundance in the delta.

The transfer removes another potential cache of water for Kern County farmers, hit hard in recent years by feder-

al orders constricting flows from the delta, and may infringe on state laws aimed at preventing the dewatering of rural communities.

"Kern County is one of the driest counties in California," Lewis said. "The idea that it would be responsible or realistic for DMB to base a huge development in the Bay Area on an elaborate importing scheme is really offensive. It's wrong-headed and a vulnerable way to set things up."

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